

ISSUE IN FOCUS

Provincial Sales Tax Reduction

Issue:

The Provincial Sales Tax (PST) has an overall negative impact on the provincial economy; specifically, a reduction in investment, competitiveness, and growth. This reduced investment and economic activity results in forgone revenue from other tax sources which creates a compounding problem.

Background:

The PST in Saskatchewan is a problem for business competitiveness. Saskatchewan's PST hurts both operational and cost of living competitiveness when compared to other provinces (i.e., Alberta). Additionally, the PST in Saskatchewan exacerbates the already challenging issue of inflation, since it is applied as a percentage. This increased cost can influence consumer behavior, potentially leading people to reduce spending, a change that has significant implications for businesses and overall economic activity.

In an October 2023 survey of the SCC membership 61% of respondents indicated the PST had a negative impact on their business operations. The most cited impact to business was increased operating costs, followed by reduced profits, losing sales to other jurisdictions, and reduced competitiveness. Further, when asked which provincial tax, if reduced or reformed would cause their business to invest more capital in Saskatchewan, 49% of members selected the PST.

Securing and accelerating business capital investment is the most effective means to grow the Saskatchewan economy as it generates more levered and diverse investment, offering substantially faster fiscal stimulus than government led endeavours. Unfortunately, research suggests that Saskatchewan has one of the highest marginal effective tax rates (METR) on new or incremental capital investment among the provinces. The consequence of the high relative marginal effective tax rate in Saskatchewan is that a Saskatchewan business project under consideration for investment must offer a forecasted, before tax, rate of return higher than an alternate equivalent investment in another province. The main factor within the provincial domain that is driving Saskatchewan's relatively high taxes on capital is the PST. Reducing Saskatchewan's PST is an effective means to shrink this comparative disadvantage in attracting investment to Saskatchewan.

Recommendation

The Saskatchewan Chamber of Commerce recommends that the Government of Saskatchewan:

1. Prioritize a reduction in the Provincial Sales Tax, and
2. Implementation of long-term provincial strategies to provide the business community with confidence and certainty that tax reduction is a priority.